

Opening an Office in Vladivostok

by Svetlana Kuzmichenko, Vladivostok BISNIS Representative

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Summary

U.S. companies interested in opening an office in Vladivostok need to first consider the legal form of their entity. Russian companies with foreign investment are registered locally, while a U.S. company subsidiary or representation is registered in Moscow.

Finding a proper office location is not a fast but solvable issue. Some telecommunication services (phone line installation, Internet connection, etc.) can be much more expensive than in the U.S.

Specialists for many positions can be found locally but extensive training may be required for specialists in certain positions (sales, marketing, etc.). English-speaking specialists cost more. Top managers are usually transferred from Moscow or other larger Russian cities. Salaries in foreign and Russian companies for management positions are almost equal but career opportunities are different and attract professionals with different motivations.

Most basic business services are available in the market. U.S. companies should pay attention to security issues. **End Summary.**

Registration Procedures

Before registering an office, a company should make a decision about legal form of the future entity. Different legal entities have a different legal status and taxation basis. This is primarily a strategic decision and consultations with a legal advisor are necessary. A U.S. company may be basically registered as:

- a Russian company with 100% (or any other percentage) of foreign investment;
- a subsidiary of a U.S. company in Russia (legal entity, able to conduct commercial activity);
- a representation of a U.S. company (commercial activity is not allowed, certain tax incentives) .

Registration procedures are the same as in other Russian regions. To register a Russian company, a U.S. company will have to prepare a package of original or notarized copies of the following documents and provide them to the District Tax Inspection of the office location:

- Charter;
- Agreement of incorporation;
- Board resolution nominating the Director of the company;
- Notarized power of attorney from each founder (if several founders organize a company) for the person appointed as a Director to act on behalf of the company;
- Board minutes authorizing the establishment of the company (if available);
- Notarized form 17001 on company registration;
- Receipt on payment of the state duty – 2000 rubles (approximately \$66).

There are five District Tax Inspection Offices in Vladivostok: Leninsky District, Pervomaisky District, Pervorechensky District, Sovetsky District, and Frunzensky District. The last one is the district of the Vladivostok downtown. The Tax Inspection Office will give the company a registration certificate. After the registration certificate is received, a company may order an official stamp and also file an application for tax number issuance. Availability of a tax number is crucial to conducting commercial activity in Russia.

A subsidiary of a U.S. company or representation of a U.S. company should be accredited in Moscow with the Ministry of Justice.

Office

Finding a proper location for your office in Vladivostok is not a prompt and easy thing. U.S. companies rarely purchase office space in Vladivostok. The most common approach is long-term leasing. However, the companies will first have to arrange a temporary office before finding a permanent residence. The immediate solution for a U.S. company can be temporary co-location with a local partner or temporary lease in the Hyundai Hotel Business Center. While searching for a proper office space, companies should keep in mind the following facts:

- Most companies prefer a downtown location.
- There are few (if any) modern business centers in Vladivostok that provide a full range of services common in the U.S.
- The major problems of local office space available for lease are limited or no parking, poor ventilation, and inconvenient design inside the buildings.
- The rent price is between \$35-60 per square meter (approximately 10.7 square feet) a month.

Personnel

There is no law requiring that a company should have a certain minimum set of professionals and/or employees. However, from a practical point of view, a U.S. company may need the following minimum set of employees (salaries listed for a monthly basis):

- secretary/interpreter (who could also do minor administrative work) - \$400-800;
- accountant (can be part-time) - \$500-800;
- driver (in case a U.S. businessman doesn't want the headache of driving in crazy city traffic, car repair, and registration procedures) - \$300-500;
- office cleaner (part-time, for security reasons it's preferable to have a permanent part-time employee rather than to use service from the landlord) - \$100-150.

In addition and depending on the company's needs, the following personnel can be hired locally:

- business development manager (E)* - \$800-2,500;
- sales manager (E) - \$1,000-1,500;
- financial manager (E) - \$1,000 - \$2,000;
- marketing manager (E) - \$800-1,200;
- logistics manager (E) - \$700-1,000;
- IT specialist - \$600-1,500;
- engineer - \$700-1,200;
- lawyer - \$500-1,000;

- PR manager (E) - \$400-1,000;
- HR manager (E) - \$500-1,000.

The benefit package typically consists of two parts: benefits guaranteed by law and additional benefits provided by the company. Benefits guaranteed by law include: 8-hour working day and 40-hour working week (can be extended to 56 hours upon an agreement with the employee), paid official holidays and sick leaves, 36 calendar days of vacation (excluding official holidays), obligatory medical insurance (3.5% of the overall salary budget), payment to the Pension Fund (28% of the overall salary budget). The company will also have to pay 4% of the salary budget to the Social Fund. Additional benefits may include premiums, life insurance (rare), paid rest for children during summer or holidays, fitness club membership, paid air transportation to western Russia for vacation, additional medical and dental insurance, happy hours, paid lunch, cellular phone, or paid gasoline.

U.S. managers should be prepared for the fact that the qualifications of local specialists in certain areas are not equal to the qualifications of U.S. staff and significant training may be required. Some companies prefer to hire motivated young people with initiative, some business experience and higher education and train them in the specialties they need (mostly sales managers and specialists, logistics specialists, and marketing specialists) on their own. Top managers are usually transferred from Moscow or other Russian western big cities. The salary offered by Russian and foreign companies is almost equal. Young professionals prefer to work in foreign companies due to extensive training and fast career growth. Relationships in foreign companies are more predictable and formalized and less dependant on the top manager's mood (unlike in many Russian companies). Young senior managers with significant western style corporate experience may be attracted by more freedom in decision making about business strategy development in Russian companies.

There are two options to hire personnel, including classified ads in local business newspapers Zolotoy Rog and Konkurent and contracting a recruiting agency. Detailed information about recruiting agencies is available at <http://www.bisnis.doc.gov/bisnis/bisdok/0308recruitPK.htm>.

American Councils for International Education, a U.S. State Department's contractor, running educational exchange programs for students and professors, has an association of the program participants who received Master's degrees in business and other fields in U.S. Universities. U.S. companies could check with the association for MBA specialists seeking jobs in the Russian Far East.

Local specialists can be hired as a permanent employee by entering the specialist's title and date of employment into a special document called the Labor Book. Upon termination of his/her employment, the specialist will take the document and transfer it to new employer. Note that termination of employment is a complicated procedure. Another option is a contract term. Employment can be easier to terminate upon the end of the contract. The employment plan/terms should be discussed with a legal advisor or HR manager. See the highlights of the new Labor Code provisions at <http://www.bisnis.doc.gov/bisnis/country/020123rslc.htm>.

If a U.S. company plans to hire a foreigner, including U.S. citizen, as an employee, it will have to receive a work permit for this employee. The approved quota for foreign employees in Primorsky Krai for 2003 is 15,000 including managers and seasonal workers. See additional information about visa and work permits for foreign employees at <http://www.acg.ru/english/>.

Telecommunications and Office Equipment

There are two companies installing regular phone lines (Dalsvyaz and NTK) and three companies providing cellular phone connection (Akos, Primitelphone, NTK). Regular phone line installation may cost from \$200 to \$600 per phone line. The price depends on the development of the telecommunication system in the district of the company's office location. Phone lines can be transferred from one address to another but can't be sold to another party. The monthly fee for a phone line is about \$7. Local calls are free but long-distance calls can be expensive. There are several Internet providers and hosting companies in Vladivostok (for example, Farpost, STL, Primorye-on-Line). There is dial-up, DSL, and wireless connection available in Vladivostok. Broadband is not available for public use. The fee is either per minute or per traffic.

Office equipment and furniture lease service is not developed in Vladivostok. However, companies can purchase new and used office furniture and office equipment (computers, printers, copying machines, etc.) without problems. Local companies sell inexpensive Chinese, less known Korean brands, Japanese brands and U.S. brands such as Compaq, IBM, and Dell. Certain brands and models, however, are not present in the market but can be ordered by local companies in Moscow and delivered within a week. Certain licensed software (for example, Microsoft Office in English) is not available in Vladivostok and is usually ordered from Moscow partners upon request. The prices are not very high. It is not recommended to bring office equipment from the U.S. due to Customs duties the company will have to pay and certification of the imported equipment that will be necessary. However, U.S. businessmen can easily bring personal laptops.

Banks

The local banking community is represented by various local (Dalnevostochny, Primorye, Primstosbank) and Moscow (Alfa bank, MDM, Moscow Bank, MENATEP, Sberbank, etc.) banks. No foreign commercial banks are available in Vladivostok. The only foreign investment bank is the European Bank for Reconstruction and Development (EBRD) which is involved in investment activity in the RFE. Both regional and Moscow banks offer a variety of services, including L/C, credit cards, wire transfers, loans. Several local banks have affiliated leasing companies. One of the non-bank leasing companies is U.S. Delta-Lease Far East (www.deltaleaserfe.ru). Details on opening an account and obtaining loans and services from local banks are available in BISNIS finance survey at <http://www.bisnis.doc.gov/bisnis/fq2003/answer.cfm>.

Business Services

Basic business services such as advertising, printing, legal, interpreting, conference organizing, consulting, marketing, accounting, customs brokerage, warehousing, express mail, etc. can be easily found in the market. The following is contact information about international legal and business counseling companies:

http://www.bisnis.doc.gov/bisnis/country/010724rfe_services.htm.

Security

U.S. companies should pay serious attention to security issues, both personal and business. A U.S. company leasing an office in a separate building, for example, will have to arrange office guarding and install office alarm and security systems to protect office employees not only from crime but also from such disturbances as net market distributors, commercial travelers and loiterers. There are several private security companies in Vladivostok that offer office and body guarding services, due diligence, detective services, distribute and install security systems, preview rental agreements to prevent fraud.

Companies may be interested in purchasing liability insurance policies and property insurance policies (for laptops, computers, important documents), etc. Automobile insurance is obligatory in Russia beginning January 1, 2004.

The following is additional information about security issues

<http://www.bisnis.doc.gov/bisnis/BULLETIN/march03bull4.htm>.

In case of emergency (life threat, imprisonment, problems with Russian police or border guards, injury, etc.), contact the U.S. Consulate officer on duty by phone at: 7-4232-710067.

U.S. companies starting business in Vladivostok should also know that the Commercial Service might provide assistance in case of commercial dispute with a local company. See details at <http://www.bisnis.doc.gov/bisnis/bulletin/may03bull6.htm>.

Personal Accommodation

Prior to finding an apartment, businessmen spend some time in hotels. The best hotels for temporary residence are the Vlad Inn (managed by a Canadian company and located in Vladivostok suburbs), Hyudai (in busy downtown), Versailles (historical downtown), Gavan and ACFES-Seiyo (Russian-Japanese JV).

There are no apartment condominiums for lease in Vladivostok managed by real estate companies or property management companies like in the U.S. Apartments and houses are leased by their owners. Higher level quality apartments and houses are leased by the word of mouth to somebody who looks respectful and trustful. The price depends on many factors, including district, location, view, number of rooms, remodeling, age of the building, additional services like parking and concierge, etc. and is about \$1,000 – 3,000 monthly for apartments over 100 square meters.

The only agency specializing in recruitment of housekeepers and cooks is Kuznitsa Kadrov (see details at <http://www.bisnis.doc.gov/bisnis/bisdoc/0308recruitPK.htm>.)

There is an international elementary, middle and high school QSI in Vladivostok, which is based on the U.S. school system and school program. The school has two American and several Russian teachers. The school accepts children from 4 to 17. Annual cost is over \$10,000. Currently, the school has 28 schoolchildren.

Business Community

The best initial sources of information about the local international business community and business environment as well as useful contacts are BISNIS and the Commercial Service of the U.S. Department of Commerce located in the building of the U.S. Consulate General and the Vladivostok International Business Association. The Vladivostok International Business Association is a non-profit organization of local and foreign businessmen. Its main goal is to assist with business promotion of the association's members. The association has monthly meetings in different city restaurants and cafes. Guest-speakers can be invited to the meetings. Annual corporate membership fee is \$150. There are also two Rotary Clubs operating in Vladivostok.

* E – English-speaking. English-speaking specialists cost more.

Note: to request contact information of the companies mentioned in this report, please, contact Svetlana Kuzmichenko at Svetlana.Kuzmichenko@mail.doc.gov.

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